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Bullish on the Bear

By Richard Lourie

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Russian policy is now driven by two factors: the imperative to modernize and the fear of China. Both dictate a move to the West, which is now well under way.

On Oct. 18, President Dmitry Medvedev met with German Chancellor Angela Merkel and French President Nicolas Sarkozy in France to formalize Russia's relations with the European Union in security matters. Medvedev will also attend the NATO summit in Lisbon on Nov. 19 to 20. That was only possible because Russia had announced it was withdrawing its troops from Perevia, a Georgian town it had occupied in the 2008 war that had become a sticking point in negotiations with NATO. This comes after a significant concession by the Kremlin when it canceled the sale of S-300 anti-aircraft missiles to Iran.

Of course, none of this means that Russia is about to become the West's lackey. For example, on Oct. 15 Medvedev and Venezuelan President Hugo Chavez signed a deal for Russia to build Venezuela's first nuclear power plant. Russia has also sold Venezuela more than $4 billion in weaponry over the past five years. None of these transactions were designed to curry favor with Washington. Medvedev, however, termed the nuclear power plant deal strictly business.

The little matter of Chernobyl aside, Russia offers a very good value proposition on nuclear energy. It will build the reactors, supply the energy at an attractive price and dispose of the waste — a decision, as one commentator remarked with mock wistfulness, that could not have been made quite so easily in a more democratic country.

But Russia has been losing ground in some of its traditional core competencies, including arms sales. Though still second to the United States, Russian sales have been hurt by Chinese "knockoffs at bargain prices."

China became more assertive the moment it passed Japan to become the world's No. 2 economy. This was displayed in its recent clash with Japan over a Chinese trawler captain held by Japanese authorities, its reaction to the Nobel Peace Prize being awarded to dissident Liu Xiaobo and in the recent embargo of rare earth minerals both to Japan and to the United States. Russia's economy would not, of course, be much affected by an embargo of this sort, but many Russians will see these as the opening salvos in what former Mayor Yury Luzhkov once told me would be "the resource wars of the future."

Coincidentally, the coming world water shortage was the cover story — "The New Oil" — of Newsweek's Oct. 18 issue. It calls Russia, along with Canada and Alaska, one of the "winners" in the world of the "new oil," seeing Siberian entrepreneurs selling water to an increasingly parched China. But those same resources also make Russia more attractive for a takeover, especially since the eastern reaches of the country are sparsely populated — 7 million Russians compared with 100 million Chinese on the other side of the border. Territorial disputes, although quiet for the time being, can always come back to life. Historically, China has always considered itself the injured party, its territory seized by "unequal treaties."

Russia is interested in Western capital, know-how and security pacts but not Western values. A few concessions might be made, like a reduced sentence for former Yukos CEO Mikhail Khodorkovsky. But Russia will definitely improve economic and legal conditions to attract capital. The coming decade should be good for investment in Russia. For the first time in quite a while, I am bullish on the bear.

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